Report of the Interim Deputy Chief Executive

STATEMENT OF ACCOUNTS 2018/2019 – UNDERLYING PENSION ASSUMPTIONS

1. Purpose of report

To provide Members with information regarding the assumptions made by the pension fund actuary in calculating the IAS 19 (International Accounting Standard 19 - Employee Benefits) figures to be reported in the 2018/2019 Statement of Accounts.

2. Introduction

IAS 19 - Employee Benefits is one of the financial reporting standards with which the Council must comply when producing its annual Statement of Accounts. The basic requirement of IAS 19 is that an organisation should account for retirement benefits when it is committed to give them, irrespective of when they are paid out.

To calculate the cost of earned benefits for inclusion in the Statement of Accounts, the scheme actuaries use certain assumptions to reflect expected future events which may affect the cost. The assumptions used should lead to the best estimate of the future cash flows that will arise under the scheme liabilities. Any assumptions that are affected by economic conditions should reflect market expectations at the balance sheet date. The proposed assumptions for 2018/19 are shown in the appendix.

The Council will use the calculated costs and the underlying assumptions based upon the advice of the actuary of the Nottinghamshire County Council Pension Fund, Barnett Waddingham, and the administering authority (Nottinghamshire County Council), in preparing the annual Statement of Accounts. A formal actuarial valuation is carried out every three years, the last being as at 31 March 2016. The Actuary's final report for 2018/2019 is due to be received on 5 April 2019. All of the figures relating to IAS 19 are simply accounting adjustments made to comply with accounting standards and have no direct impact on resources. The amount charged to the General Fund Balance is the actual amount paid out in employers' contributions and not the charge calculated in accordance with IAS 19. The liability shown in the balance sheet is an estimate based on assumptions and would only ever become payable if the Council ceased as a going concern.

Recommendation

The Committee is asked to CONSIDER the assumptions to be used in the calculation of pension figures for 2018/2019

Background papers
Nil

APPENDIX

Proposed Financial Assumptions for 2018/2019

The value of the Pension Fund's assets and liabilities are heavily dependent on the underpinning assumptions. The Employer is ultimately responsible for the assumptions used and this year's proposed assumptions are listed below:

- **Corporate bond yields.** This is used to derive the discount rate which is applied to the employer's liabilities to calculate their future values. The rates used are those that match the duration of the employer's liability.
- **Expected Return on Assets.** The actuaries anticipate that a typical local Government Pension Fund might achieve a neutral return of 0% in the year to 31 March 2019 although this may vary depending on the individual funds investment strategy.
- **Inflation Expectations.** The levels of future Retail Prices Inflation (RPI) are assessed on the basis of the yields on fixed interest and index linked government securities over the period of the duration of the liabilities. The increases in pensions in the Local Government Pension are based on the Consumer Prices Index (CPI) which historically is lower than the Retail Prices Index. The Actuary has assessed the gap between RPI and CPI going forward to be a reduction of 1.0%.
- **Salary Increases** – The actuaries have proposed that salary increases are in line with CPI to 2020, and then they increase in line with CPI plus 1.5%.

The overall impact of the assumptions for an average employer is set out below but it should be noted that individual employer's circumstances vary, in particular the average age of their overall liabilities and therefore the results for Broxtowe may be different from the assessment below.

Changes in Actuary's Assumptions upon Employer's Liability from 2017/2018

Assumption	Duration of Individual Employee Liability (Years)			
	Less than 10	10 to 15	15 to 20	Greater than 20
Effect of change in discount rate on employer's liability	Decrease of 1%	Decrease of 2%	Decrease of 3%	Decrease of 4%
Change in inflation on employer's liability	No significant change	Increase of 1%	Increase of 1%	No significant change
Overall impact	No significant change	Decrease of 1%	Decrease of 2%	Decrease of 4%

Brexit Effect

In addition to the usual difficulties in predicting market changes, the UK is scheduled to leave the European Union on 29 March 2019. The effect this will have on the asset and liability values will be dependent on how market participants react on the date of exit. Market reaction will depend heavily on the final withdrawal deal (or no deal) and the market's perception of this deal. It is therefore highly likely that market conditions will be different at 31 March 2019 and the fund valuation will be affected accordingly.